

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF AXIA ENERGY II, LLC FOR AN ORDER POOLING ALL INTERESTS, INCLUDING THE COMPULSORY POOLING OF CERTAIN NON-CONSENTING OR UNLOCATABLE OWNERS, IN TWO 1,280-ACRE (OR SUBSTANTIAL EQUIVALENT) DRILLING UNITS ESTABLISHED BY THE BOARD'S ORDER IN CAUSE NO. 139-138 IN SECTIONS 29 AND 32, AND 28, AND 33, TOWNSHIP 2 SOUTH, RANGE 1 WEST, USM, DUCHESNE COUNTY, UTAH.

NOTICE OF HEARING

Docket No. 2016-017
Cause No. 139-139

THE STATE OF UTAH TO ALL PERSONS INTERESTED IN THE FOLLOWING MATTER.

Notice is hereby given that the Board of Oil, Gas and Mining ("Board"), State of Utah, will conduct a hearing on WEDNESDAY, SEPTEMBER 28, 2016, at 10:00 AM, or as soon thereafter as possible, in the auditorium of the Department of Natural Resources, 1594 West North Temple, Salt Lake City, Utah. The hearing will be streamed live on the Department of Natural Resources YouTube channel at <https://youtu.be/IBWf-PZcHq0>.

The hearing will be conducted as a formal administrative adjudication in accordance with the rules of the Board as set forth in Utah Administrative Code R641 et seq., and as provided for in Utah Code Ann. § 40-6-1 et seq., and Utah Code Ann. § 63G-4-101 through 601.

The purpose of the hearing will be for the Board to receive testimony and evidence regarding a Request for Agency Action filed by Axia Energy II, LLC (“Axia”) that the Board enter an Order:

1. Pooling all interests within two 1,280-acre (or substantial equivalent) drilling units comprised of lands located in Township 2 South, Range 1 West, USM, Sections 28 and 33 (the “28/33 DU”), and Sections 29 and 32 (the “29/32 DU”), (collectively, the 28/33 DU and the 29/32 DU are the “Subject Drilling Units”), all of which are situated in Duchesne County, Utah (the “Subject Lands”), for the production of oil, gas, and associated hydrocarbons from the Lower Green River/Wasatch Spaced Interval (“Subject Formations”) defined as follows:

the interval from the top of the Lower Green River Formation (Mahogany Marker Bed) to the base of the Green River-Wasatch or the top of the North Horn Formation, the stratigraphic equivalent of which is defined as between 7,212 feet and 13,651 feet as shown in the Borehole Compensated Sonic-Gamma Ray Log of the Flying J – Dustin # 1 Well located in the NE1/4SW1/4 of Section 22, Township 2 South, Range 3 West, U.S.M., and as between 6,555 feet and 12,392 feet as shown in the Digital Sonic Log of the Devon – 1-26B1 Well located in the SW1/4SW1/4 of Section 26, Township 2 South, Range 1 West, U.S.M.,

from the following proposed horizontal wells with a lateral length in excess of one mile (“LLHW”) wells (collectively “Subject Wells”):

a. Butcher Butte 32-144H-21. The Butcher Butte 32-144H-21 (“32-144H-21 Well”) will have a surface location in Lot 4, Section 4, T3S-R1W, located directly south of Section 33, T2S-R1W. The 32-144H-21 Well will test the Uteland Butte member of the Green River Formation within the Lower Green River/Wasatch Spaced Interval. The well is projected to be drilled to a vertical depth of 9,801 feet and a total measured depth of 19,255 feet and will be completed in 29/32 DU. The 32-144H-21 Well will encounter the target formation in the SE1/4SE1/4 of the subject Section 32 and will have a bottomhole location in the

target formation in the NE1/4NE1/4 of the subject Section 29. The estimated costs for drilling, completion and equipment total \$13,515,271.

b. Butcher Butte 33-34H-21. The Butcher Butte 33-34H-21 Well (“33-34H-21 Well”) will have a surface location in Lot 4, Section 4, T3S-R1W, located directly south of section 33, T2S-R1W. The 33-34H-21 Well will test the Wasatch Five member of the Upper Wasatch Formation within the Lower Green River/Wasatch Spaced Interval. The well is projected to be drilled to a vertical depth of 10,101 feet and a total measured depth of 19,555 feet and will be completed in the 28/33 DU. The 33-34H-21 Well will encounter the target formation in the SW1/4SW1/4 of the subject Section 33 and will have a bottomhole location in the target formation in the NW1/4NW1/4 of the subject Section 28. The estimated costs for drilling, completion and equipment total \$13,548,878.

c. Future Wells. In addition to the 32-144H-21 Well in the 29/32 DU and in addition to the 33-34H-21 Well in the 28/33 DU, the Order issued by the Board of Oil, Gas and Mining in Cause No. 139-138[•], which established the 29/32 DU and the 28/33 DU as 1,280-acre (or substantial equivalent) drilling and spacing units (“139-138 Order”) allows the drilling of up to 31 additional wells in each separate drilling unit to fully develop the Lower Green River/Wasatch Spaced Interval. These additional wells are expected to be LLHWs, but may include any combination of LLHWs, horizontal wells with a lateral length of less than one mile (“SLHW”), vertical and directional wells (“Future Wells”). The Future Wells will test, and upon proof, develop a combination of the following primary formations: Douglas Creek, Carbonate Marker, Castle Peak, Uteland Butte, Wasatch Five; and

a combination of the following secondary formations: Garden Gulch, Wasatch Four, Wasatch Three, and Flagstaff. The Future Wells would be developed in a similar manner to development of the 32-144H-21 Well and 33-34H-21 Well; and

2. Pooling all of the interests within each established Subject Drilling Unit for the development and operation of the Subject Drilling Unit and the respective Subject Wells and Future Wells, and further providing in accordance with Utah Code Ann. §40-6-6.5:

a. That operations incident to the drilling of either Subject Wells or Future Wells within any part of a Subject Drilling Unit covered by such order shall be deemed for all purposes to be operations under each separately owned tract in the Subject Drilling Unit.

b. That the portion of production allocated or applicable to a separately owned tract within any Subject Drilling Unit covered by such order shall, when produced, be deemed for all purposes to have been produced from that tract by a well drilled on it.

c. That such order provide for the payment of just and reasonable costs incurred in the drilling and operation of the Subject Wells or Future Wells, including, but not limited to:

(i) the costs of drilling, completing, equipping, producing, gathering, transporting, processing, marketing, and storage facilities;

(ii) reasonable charges for the administration and supervision of operations; and

(iii) other costs customarily incurred in the industry.

d. That an owner is not liable under such an order for costs or losses resulting from the gross negligence or willful misconduct of the operator.

e. For each Subject Well or Future Well in which an owner does not elect to participate in the just and reasonable costs incurred and to be incurred in the drilling and operation of each well within a reasonable time following written notice of the opportunity to participate (a "Non-Consenting Owner"), then such party shall be entitled to receive, subject to royalty or similar obligations, the share of production of the well applicable to his or her interests in the well only after the owners who elect to participate in the just and reasonable costs incurred and to be incurred in the drilling and operation of the designated well (the "Consenting Owners") have recovered from the Non-Consenting Owner's share of production the following amounts less any cash contributions made by the Non-Consenting Owner:

(i) 100% of the Non-Consenting Owner's share of the cost of surface equipment beyond the wellhead connections;

(ii) 100% of the Non-Consenting Owner's share of the estimated cost to plug and abandon the well as determined by the Board;

(iii) 100% of the Non-Consenting Owner's share of the cost of operation of the well commencing with first production and continuing until the Consenting Owners have recovered all costs;

(iv) 300% (or an amount to be determined by the Board not less than 150% nor greater than 400%) of the Non-Consenting

Owner's share of the costs of staking the location, wellsite preparation, rights-of-way, rigging up, drilling, reworking, recompleting, deepening or plugging back, testing and completing, and the cost of equipment in the well to and including the wellhead connections.

f. That a Non-Consenting Owner's share of the costs specified above is that interest which would have been chargeable to the Non-Consenting Owner had it initially agreed to pay its share of the costs of the well from the commencement of the operations for the well.

g. That if there is any dispute about costs, the Board shall determine the appropriate costs.

h. That such order shall provide for reimbursement to the Consenting Owners for any Non-Consenting Owner's share of the costs out of production from the Drilling Unit attributable to his or her tract and that the Consenting Owners shall own and be entitled to receive, subject to royalty or similar obligations, the share of production attributable to their working interests in the Subject Drilling Unit; and unless he or she has agreed otherwise, his or her proportionate part of the Non-Consenting Owner's share of the production until costs are recovered as provided herein.

i. That if a Non-Consenting Owner's tract is subject to a lease or other contract for oil and gas development, such order shall provide that the Consenting Owners shall pay any royalty interests or other interest in the tract not subject to

the deduction of the costs of production from the production attributable to that tract.

j. That if a Non-Consenting Owner's tract is not subject to a lease or other contract for oil and gas development, then such party shall receive as royalty the acreage weighted average landowner's royalty attributable to each tract within such Drilling Unit as provided in Utah Code Ann. §40-6-6.5(6)(a)(i), said royalty to be paid from production attributable to each such tract until the Consenting Owners have recovered the costs as provided herein. Once the Consenting Owners have recovered such costs, the royalty shall be merged back into the Non-Consenting Owner's working interest and shall be terminated. The Board will determine the acreage weighted average landowner's royalty at the hearing.

k. That the operator of the Subject Drilling Unit well shall furnish any Non-Consenting Owner with monthly statements specifying costs incurred, the quantity of oil and gas produced, and the amount of oil and gas proceeds realized from the sale of the production during the preceding month.

l. That when the Consenting Owners have recovered from a Non-Consenting Owner's relinquished interest all of the amounts specified herein, the relinquished interest shall automatically revert to the Non-Consenting Owner. The Non-Consenting Owner shall from that time own the same interest in the respective well and the production from it, and be liable for the further costs of the operation, as if he or she had participated in the initial drilling and operation. Such costs shall be payable out of production.

m. That in any circumstance where a Non-Consenting Owner has relinquished his or her share of production or at any time fails to take his or her share of production in-kind when he or she is entitled to do so, the Non-Consenting Owner shall be entitled to an accounting of the oil and gas proceeds applicable to his or her relinquished share of production, and payment of the oil and gas proceeds applicable to that share of production not taken in-kind, net of costs.

n. That a reasonable interest charge of the Prime Rate plus 3% (three percent) (with "Prime Rate" defined as the prime rate reported by Wells Fargo Bank in Salt Lake City, or, if Wells Fargo Bank ceases to exist or to report a prime rate, then the Prime Rate shall be the prime rate reported by a comparable bank operating in the State of Utah) be imposed on the outstanding costs and expenses.

o. That plugging and abandonment costs based on evidence provided by Axia at the hearing in this Cause be determined.

p. That all other issues between any Non-Consenting Owners and the Consenting Owners not otherwise expressly addressed in the Board's Order be governed by the provisions of the current form of joint operating agreement that governs operations by the Consenting Owners on the Subject Lands or other nearby producing lands.

3. Regarding the Future Wells in the 29/32 DU and the 28/33 DU, all interests are and will be bound to the terms and conditions of the Order upon the satisfaction of the following by the Operator:

a. Before drilling, the Operator shall provide notice of its intent to drill a Future Well, estimated costs, and invite each interest owner to lease or participate in the Future Well subject to the terms of this Order;

b. Operator shall provide each interest owner at least thirty (30) days to respond;

c. If any interest owner fails to timely respond or refuses to either lease or participate in the Future Well, then that interest owner shall be considered a Non-Consenting Owner for the noticed well, and subject the Non-Consenting Owner and its interest in the Future Well to the Order entered by the Board pursuant to this Request for Agency Action.

4. Including that the pooling be made retroactive to the date of first production for every well allowed in a Subject Drilling Unit, and incorporating the provisions set forth in Paragraph 2, in accordance with Utah Code Ann. §40-6-6.5; and

5. Providing for such other and further relief as may be just and equitable under the circumstances.

Objections to the Request for Agency Action must be filed with the Secretary of the Board at the address listed below no later than September 14, 2016. A party must file a timely written objection or other response in order to participate as a party at the Board hearing. Failure to participate can result in a default judgment.


Natural persons may appear and represent themselves before the Board. All other representation of parties before the Board will be by attorneys licensed to practice law in the State of Utah, or attorneys licensed to practice law in another jurisdiction which meet the rules of the Utah State Bar for practicing law before the Utah Courts.

Persons interested in this matter may participate pursuant to the procedural rules of the Board. The Request for Agency Action, and any subsequent pleadings, may be inspected at the office of the undersigned, and inspected online at the Utah Board of Oil, Gas and Mining's website at <http://ogm.utah.gov/amr/boardtemp/redesign/books.html>.

Pursuant to the Americans with Disabilities Act, persons requiring auxiliary communicative aids and services to enable them to participate in this hearing should call Julie Ann Carter at (801) 538-5277, at least three working days prior to the hearing date.

DATED this 30th day of August, 2016.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING
Ruland J Gill, Jr., Chairman



/s/ Julie Ann Carter
Board Secretary
1594 West North Temple, Suite 1210
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CERTIFICATE OF PUBLISHED NOTICE

I hereby certify that I caused a true and correct copy of the foregoing NOTICE OF HEARING for Docket No. 2016-017 Cause No. 139-139 to be PUBLISHED in the following newspapers on the following days:

September 4, 2016:

The Salt Lake Tribune and Deseret Morning News, newspapers of general circulation in Salt Lake City and County.

September 6, 2016:

Uintah Basin Standard, a newspaper of general circulation in Duchesne and Uintah Counties.

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CERTIFICATE OF SERVICE

I hereby certify that on this 31st day of August, 2016, I caused a true and correct copy of the foregoing **NOTICE OF HEARING** for Docket No. 2016-017 Cause No. 139-139, to be mailed by Email or via First Class Mail with postage prepaid, to the following:

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